SECOND QUARTER 2026

PRODUCT COMMENTARY

STB 1-3 Year Gov/Credit Composite

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Merganser Capital Management is a best-in-class boutique fixed income manager with a fundamentals-based investment approach. Formed in 1985, Merganser is an SEC registered investment advisor focused on the needs of institutional clients.

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MARKET OVERVIEW

Continued conflict in the Middle East, volatile energy prices, and resilient labor markets stoked inflation concerns during the second quarter, causing investors to reset expectations for Federal Reserve (Fed) policy. The Fed left its target rate unchanged at 3.50% - 3.75% at both its April and June meetings. Kevin Warsh presided over his first FOMC meeting as Fed Chair in June, ultimately signaling a significantly more hawkish tone than investors anticipated and reducing the amount of forward guidance provided by the Fed. US Treasury (UST) yields, particularly at the front of the curve, rose with the 2-year, 10-year and 30-year UST yields increasing by 38, 15 and 4 basis points (bps) during the quarter, respectively. The UST yield curve flattened as measured by both the 2's vs. 10's and 10's vs. 30's curves. Futures markets began the quarter predicting effectively no changes to the Fed Funds target rate for the remainder of the year. By the end of the quarter, this shifted to markets predicting between one and two interest rate hikes in the second half of 2026. For many Investment Grade (IG) fixed income strategies, the negative price impact from increasing UST yields was more than offset by spread tightening and positive carry. The Bloomberg 1-3 Year Government/Credit index returned 0.48% for the quarter, bringing the trailing 12-month return as of 6/30/2026 to 3.15%. Despite the uncertain macro backdrop, sentiment was risk-on among IG spread sectors during the quarter, with most subsectors outperforming like-duration USTs (according to the Bloomberg US Aggregate index). IG corporate credit spreads tightened by 15 bps, ending the quarter near historic tights, and the sector outperformed USTs by 117 bps. Utilities, financials, and industrials outperformed by 137, 125 and 108 bps, respectively. Spreads tightened by 11 and 7 bps in April and May, respectively and widened by 2 bps in June. The modest widening in June came amid record setting issuance for the month of $203 billion. Several of the largest technology companies

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issued massive deals during the quarter to fund AI-related capex. Among securitized sectors, CMBS was the top performer, outpacing like-duration USTs by 37 bps. Non-Agency and Agency CMBS outperformed by 55 and 20 bps, respectively. ABS outperformed by 36 bps and remittance reports for consumer receivables continued to reflect differentiation between prime and subprime borrowers. Agency RMBS outperformed by 30 bps. Conventional 30-year paper significantly outperformed Conventional 15-year paper, which was hampered by interest rate volatility at the front-end of the curve.

POSITIONING CHANGES

During the second quarter, we opportunistically sold richly valued securities in our Short Term Bond 1-3 Year Government/Credit portfolios. We decreased our allocation to corporate credit by 2% (34% as of 6/30/2026) and deployed the proceeds in USTs (28% as of 6/30/2026). A dramatic increase in supply from M&A, hyperscaler capex, and emerging AI disruption risks have pushed spreads wider for many industrial issuers but index spreads remain tight, reflecting growing bifurcation of the capex related credit impacts. The risks for certain names are better reflected in spreads after the recent move wider and we expect to selectively add exposure. Domestic utilities are relatively insulated from geopolitical impacts and commodity volatility/inflation through rate-base adjustments. Highly visible cash flows at investor-owned utilities are also more reliable through various economic scenarios. Front end utility operating company spreads currently provide pockets of value, especially relative to other defensive sectors in corporate credit. Our participation in the new issue market during the quarter was centered on banking. Banking spreads widened alongside other sectors in June, and we are beginning to see attractive opportunities in our preferred names. We remain constructive on the "too big to fail" banks but expect spread volatility to persist, particularly for Yankee and regional banks. Insurance is another sector where we see pockets of value. REITs continue to offer limited compensation for risk related to funding costs and uncertainty over property values. We decreased our allocation to ABS by 1%, ending the quarter at 20%. While there has been some deterioration in collateral performance, deals remain well enhanced. New issuance during the quarter was well absorbed by the market and reflected the strong demand for IG fixed income. Many of the esoteric ABS

A dramatic increase in **supply from M&A, hyperscaler capex, and emerging AI disruption risks** have pushed spreads wider for many industrial issuers

subsectors continue to appear overvalued and are likely to experience greater spread volatility. We are looking to opportunistically add high quality, liquid ABS subsectors. We increased our allocation to CMBS by 1%, ending the quarter at 13%. Within Non-Agency, the outlook for refinance activity remains a tug-of-war between lower long-term rates offset by slower job growth. After aggressively reducing our conduit exposure last year, we are taking a patient approach, waiting for a better entry point as high quality spreads are 70-80 bps tighter. We continue to favor SASB where have found attractive floating rate opportunities. Within Agency CMBS, we extended the duration of our allocation by selling shorter securities (< 1 year) and deploying the proceeds further out the curve (2-3-years). Our allocation to Agency RMBS stayed flat at 4%. Nominal and option-adjusted spreads for 15-year paper have been rangebound since the start of the year. Given limited supply and tight spreads on secondary inventory, we will wait for a better entry point. Our overall duration positioning was unchanged at neutral vs. the benchmark. We are moving our key rate duration positioning from relatively barbelled to a more bulleted stance in response to curve shifts.

OUTLOOK

U.S. growth remains resilient, supported by solid consumer spending and strong business investment, particularly in technology and capex. Labor market conditions remain broadly stable, with solid payroll gains, steady unemployment and elevated job openings, though signs of moderation, including higher claims and softer sentiment, are emerging. The expansion remains increasingly K-shaped. However, tighter financial conditions are expected to gradually weigh on activity. Overall, the outlook is for moderate U.S. growth, with potential upside from business investment and downside risk from policy and elevated interest rates. The Fed faces a higher bar for rate cuts with greater sensitivity to labor and inflation surprises. Changes in communication policy could add to volatility on the front end of the curve. The long end of the yield curve has traded within a wide range (70 basis points) since the beginning of the easing cycle. Treasury yields have stabilized near recent highs (with the 10-year UST yield hovering around 4.5%). Curve dynamics remain volatile, shifting between steepening and flattening depending on macro developments. Overall, rates are likely to remain anchored at higher levels, with stronger labor data, reduced growth concerns and elevated treasury supply somewhat offset by lower inflation if

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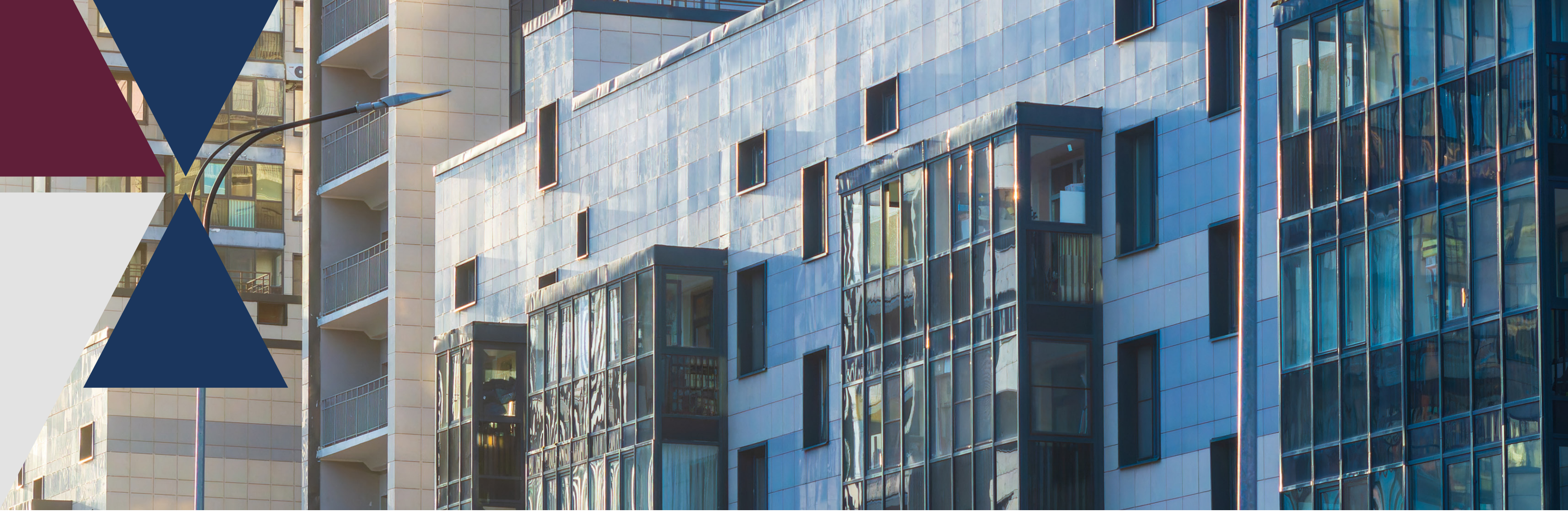

the peace talks with Iran are sustained. Inflation remains above target, with Core PCE tracking near ~3.4% and expected to remain elevated through year-end. Services inflation and wage pressures remain firm, supported by still-resilient labor market conditions. The recent easing in energy prices has provided some near-term relief; however, inflation is expected to moderate only gradually, with risk of renewed persistence if energy or wage pressures re-emerge.

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